

Message Text

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ACTION EA-14

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TAGS: EFIN, IMF/IBRD, ECON, TW

SUBJECT: LATEST ECONOMIC DATA ON ROC

REF: A) STATE 209642; B) TAIPEI A-183 OF SEPT 20, 1974

HONG KONG FOR TREASURY REP

1. SUMMARY: AS OF POSSIBLE BACKGROUND INTEREST DURING TALKS WITH K.T. LI, YU KUO-HUA AND Y.S. SUN, ADDITION INFORMATION OBTAINED FROM CENTRAL BANK OFFICIAL SINCE OUR LATEST TRENDS REPORT INDICATES THAT ON FOREIGN EXCHANGE SETTLEMENT BASIS ROC BALANCE OF PAYMENTS INCLUDING TRADE ACCOUNT POSITIVE IN THREE SUMMER MONTHS WITH RESULTING ACCUMULATION OF FOREIGN EXCHANGE RESERVES. NET FOREIGN ASSETS OF BANKING SYSTEM WERE US\$1,708 MILLION ON AUGUST 31, UP US\$114 MILLION FROM END JULY. THIS INFORMATION ENCOURAGES GROC TO ANTICIPATE TRADE SURPLUS ON CUSTOMS BASIS IN LAST QUARTER OF YEA R AND UNDERLAY PREMIER'S DECISION AGAINST DEVALUATION AT PRESENT. END SUMMARY.

2., SUGGEST USE REF B FOR BACKGROUND INFORMATION DURING
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CONSULTATION IN WASHINGTON OF USG OFFICIALS WITH ROC

MINISTER OF FINANCE LI AND GOVERNOR OF CENTRAL BANK YU.
ITEM 11 PROVIDES LATEST INFO ON PRICE SITUATION, ITEM 12
ON TRADE PERFORMANCE IN AUGUST BASED ON CUSTOMS DATA AND
ITEM 13 FOREIGN INVESTMENT APPROVALS. THIS DATA SUPPLE-
MENTS BASIC ROUND-UP OF ECONOMIC SITUATION CONTAINED IN
ECONOMIC TRENDS REPORT SUBMITTED EARLY IN SEPTEMBER.

3. SINCE REF AIRGRAM SENT, EMBOFF HAS DISCUSSED FOREIGN
EXCHANGE RESERVES AND BALANCE OF PAYMENTS SITUATION WITH
CHIA HSIN-PAO (H.P. CHIA). HE REPORTS THAT ON FOREIGN
EXCHANGE SETTLEMENT BASIS ROC HAD BALANCE OF PAYMENTS
SURPLUS, INCLUDING TRADE ACCOUNT, AND ACCUMULATED
FOREIGN EXCHANGE RESERVES IN JUNE, JULY AND AUGUST.
WHILE NOT PROVIDING ANY SPECIFIC FIGURES HE SAID CURRENT

ASSETS OF CENTRAL BANK ARE AT ABOUT SAME LEVEL AS MARCH
OF THIS YEAR, AND HE EXPECTS GOVERNMENT FOREIGN EXCHANGE
POSITION AT END DECEMBER TO BE ROUGHLY EQUIVALENT TO THAT
AT END OF 1973.

4. IMPROVED SITUATION ON FOREIGN EXCHANGE SETTLEMENT
BASIS DUE IN PART TO SLACKENING OF IMPORTS TOGETHER
WITH INCREASING LEVEL OF EXPORTS. RESUMPTION OF FINANCING
OF IMPORTS THROUGH 180-DAY USEANCE LETTERS OF CREDIT IN
MARCH HAS HAD ONLY SLIGHT EFFECT ON CURRENT ACCOUNT
SINCE VOLUME OF L/C'S AROUND US\$80-100 MILLION OR ABOUT
20 PERCENT OF MONTHLY IMPORTS.

5. ONLY PUBLISHED DATA AVAILABLE ON FOREIGN EXCHANGE
HOLDINGS IS ITEM CALLED "NET FOREIGN ASSETS" OF THE
BANKING SYSTEM IN "FINANCIAL STATISTICS MONTHLY".
IT INCLUDES CENTRAL BANK HOLDINGS PLUS NET POSITION OF
COMMERCIAL BANKS. THIS DATA WHICH HAS JUST BECOME
AVAILABLE FOR AUGUST SHOWS FOREIGN ASSETS OF
US\$1,708,000,000, AND INCREASED OF US\$114 MILLION FROM
THE END OF JULY.

6. FOREIGN EXCHANGE SETTLEMENT DATA IS CONSIDERED
LEADING INDICATOR OF WHAT WILL TRANSPIRE IN TRADE
SECTOR 2 OR 3 MONTHS HENCE WHEN GOODS ACTUALLY ARRIVE
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AND ARE ACCOUNTED FOR IN CUSTOMS FIGURES. THUS,
GOVERNMENT FEELS TRADE PERFORMANCE ON A CUSTOMS
BASIS SHOULD CONSIDERABLY IMPROVE IN 4TH QUARTER.
MANY BUSINESSMEN ARE NOT SO CONFIDENT.

7. ABOVE DEVELOPMENTS CAUSED PREMIER DECIDE AGAINST
DEVALUATION AT PRESENT TIME, IN SPITE OF US\$160 MILLION
TRADE DEFICIT IN AUGUST AND ACCUMULATED DEFICIT

FOR YEAR OF US\$745 MILLION REPEATED REF B.
UNGER

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